THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

LAN.SN - Q2 2018 LATAM Airlines Group SA Earnings Call

EVENT DATE/TIME: AUGUST 21, 2018 / 1:00PM GMT

CORPORATE PARTICIPANTS

Andrés Del Valle Eitel *LATAM Airlines Group S.A.*

Ramiro Diego Alfonsin Balza *LATAM Airlines Group S.A. - CFO & Senior VP of Financial Fleet*

Roberto Alvo Milosawlewitsch *LATAM Airlines Group S.A. - SVP of Commercial*

CONFERENCE CALL PARTICIPANTS

Duane Thomas Pfennigwerth *Evercore ISI Institutional Equities, Research Division - Senior MD*

Joshua Milberg *Morgan Stanley, Research Division - Equity Analyst*

Michael John Linenberg *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Savanthi Nipunika Syth *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

Stephen Trent *Citigroup Inc, Research Division - Director*

PRESENTATION

Operator

Good day, everyone, and welcome to LATAM Airlines Group Earnings Release Conference Call. Just a reminder, this conference is being recorded. LATAM Airlines Group earnings release for the period was distributed on Monday, August 20. If you have not received it, you can find it in our website, www.latamairlinesgroup.net in the Investor Relations section.

At this time, I would like to point out that statements regarding the company's business outlook and anticipated financial and operating results constitute forward-looking comments. These expectations are highly dependent on the economy, the airline industry and international markets. Therefore, they are subject to change.

Now it is my pleasure to turn the call over to Mr. Ramiro Alfonsín, Chief Financial Officer of LATAM Airlines Group. Mr. Alfonsín, please begin.

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO & Senior VP of Financial Fleet*

Thank you, operator. Good morning, everyone, and welcome to LATAM Airlines Second Quarter Earnings Call. Joining me today is Mr. Roberto Alvo, Chief Commercial Officer; Mr. Jerome Cadier, CEO of LATAM Airlines Brazil; and Mr. Andres del Valle, Vice President of Corporate Finance.

Please join me on Slide 2, where you will find the highlights for the second quarter 2018. LATAM faced a challenging macro environment during the second quarter. Fuel prices increased significantly representing $175 million additional cost for LATAM during this second quarter.

During this period, LATAM faced 2 singular events, a strike from Chile cabin crew members in April and the truck drivers' strike in Brazil during May. These events have undoubtedly put pressure into our operations and results for the quarter. During the second quarter, we had the most critical situation regarding the difficulties associated to our Boeing 787 fleet due to industry-wide Rolls Royce extended engine maintenance. After having a maximum of 13 aircrafts on ground during June, that number has now decreased to 6 airplanes on ground, and we have Rolls' commitment on having no aircraft on ground by year-end. We want to thank our employees for the efforts carried out and commitment with the company during this quarter.

During the second quarter, our operating income amounted to $6.5 million, representing an operating margin of 0.3%. These results includes the impact of the mentioned one-off events, the strike in Chile and in Brazil, both of them totaling an impact of $38 million in the quarter. The company continued relentlessly with its efficiency plan, offsetting inflationary costs. We reduced headcount by 3.9% versus the second quarter 2017 and continued to see the benefits of a higher volume of operation with fewer aircraft. In addition, we are no longer experiencing the high amounts of redelivery expenses as in the previous 2 years. During the quarter, we also completed the integration of our reservation systems and have now a single reservation platform across all of our operations. This will help us to better serve the needs of our passengers as well as additional cost savings for LATAM.

Total operating expenses ex fuel decreased 2.9% and cost per ASK ex fuel improved by 7.2%. Fuel cost increased 34% in the quarter. Taking into account the reduction in cost ex fuel and the increase in fuel prices, total operating expenses increased by 5.6%. LATAM is reducing fleet commitments for 2018 by almost 30% as compared to what was previously announced.

Due to market conditions and industrial delays, we are postponing the arrivals of aircraft, resulting in total fleet commitments for 2018 of $500 million instead of the $700 million originally announced. You should not be expecting any cash out for this investment, all will be sale and leaseback.

Finally, as we are incorporating into our estimate higher fuel prices, weaker currencies in the region and the negative impact of the strikes in Chile and in Brazil, we are updating our guidance for operating margin of 2018 to range between 6.5% and 8%.

Turning to Slide 3, you will find a summary of our income statement. Total revenues of the company increased by 3.7% in the second quarter to $2.4 billion. The improvement has been driven by a recovery in both the passenger and the cargo segment. On the passenger side, we were able to increase total yields by 1.7%, while increasing capacity by 4.6% during the quarter, and despite the strikes and the minor disruption due to the migration of the passenger service system in our operations in Brazil, total passenger revenues increased 3.6% year-over-year in the second quarter.

We continue to see a good performance in the international segment. This is a result of a strong demand from the Spanish-speaking countries, where we started to see more pressure in the long-haul operations from Brazil, especially in those to the U.S., due to higher industrial capacity. In Brazil domestic operations, we have been seeing good passenger demand before the truckers' strike, and after that, it took until July before we started to see a mild recovery again. Regarding the Spanish-speaking countries, we are happy with the results of our branded fare strategy, which we believe is the correct approach to competitors. Our load factors in the domestic Spanish-speaking countries increased by almost 1 point in the quarter and passengers carried by 3% year-over-year despite the strike in Chile.

On the side of cargo, revenues increased by almost 17%, in line with the previous quarter, and other revenues fell 21%, mainly as a result of the lower revenues from the frequent flyer program in Brazil and the implementation of IFRS-15 since the beginning of 2018. Our cost increased by 5.6% compared to the second quarter and this increase is mainly explained by $175 million of higher fuel cost. Excluding fuel, total costs have declined by 2.9% and cost per ASK declined 7.2%, as we see the results of the efficiency initiatives implemented in the past quarter.

Consequently, our operating income for the quarter amounted to $6 million. Excluding the $38 million negative impact from the strikes, we would have reached an operating margin of 1.9% this second quarter, very similar to last year's second quarter, but with much higher fuel prices. The nonoperating results amounted to $126 million loss in the second quarter compared to $144 million loss in the second quarter 2017.

Due to the Brazilian real depreciation, we had a foreign exchange loss of $79 million. Despite the rates increase -- the interest rates increase, our net interest expense decreased by $5 million. The foreign exchange loss was offset by the sale of Andes Airport Services, a former subsidiary of LATAM related to the ground handling operations in Chile, which generated a $22 million gain.

In this line, yesterday, we announced the outsourcing of our airport services of ground handling at the airports of Guarulhos in São Paulo and Galeao in Rio de Janeiro, in line with the previous outsourcing of ground handling services in Ecuador and in Chile in the past quarters. This will help us achieve more operating efficiencies in the following quarters.

With that, the net loss was $114 million in the quarter. If we take a look at the first half figures on the right-hand side, combining the solid first quarter with the challenging second quarter, our operating margin is 0.4 percentage point higher than the 4.2% from the first half of 2017, despite the $300 million increase in fuel cost, the impact of the strikes during the second quarter and the engine impact in 2018 that we're suffering due to the Rolls Royce engine situation.

Net loss in the first half of 2018 was lower than in the first half 2017. LATAM recorded a net loss of $20 million in the first semester as compared with a net loss of $72 million in the same period of 2017, despite the negative impact of the $78 million foreign exchange loss in 2018. Finally, for the first half of 2018, LATAM generated $400 million cash flow after investments, an improvement of over $300 million -- of the $300 million generated in the same period of 2017. With that, I turn the call to Andres del Valle for further details.

Andrés Del Valle Eitel - *LATAM Airlines Group S.A.*

Thank you, Ramiro, and good morning, everyone. Please turn to Slide #4, and let's begin talking about the revenue environment during the quarter. As Ramiro mentioned, the second quarter results were mainly affected by 2 strikes and the availability of approximately 50% of our Boeing 787 fleet. Despite these one-off events, both passenger and cargo segments continue to show capacity increases on a year-over-year basis.

If we look at the international operations, representing 57% of the total capacity, our capacity grew by 5.3% this quarter, and traffic grew by 1.8% resulting in a load factor decline of 2.9 percentage points to 84%. Revenues per ASK, which was $0.61 increased by 4.3% versus last year, driven mainly by international growth from the Spanish-speaking countries. If you look at our point of sales, we notice that revenues generated in U.S. and the Europe accounted for 18% of our total revenues in the second quarter 2018 compared with the 15% in the same period of 2017.

Now looking at the domestic Brazil operations, which represent a 27% of our total ASKs, total capacity increased by 6.1%, mainly at our São Paulo hub. When we look at the load factor, which reached 77%, part of the 2.7 percentage points decline was generated by minor disruptions caused by the migration of the passenger service system in our Brazilian operations and the strike in Brazil.

Furthermore, we had a 0.5% decline in revenue per ASK in local currency, while measuring in U.S. dollars terms, revenue per ASK declined 9.7% to [USD 5.60].

If we look at the Spanish-speaking countries' domestic operations, which altogether represent 16% of our total passenger capacity, capacity remained flat, mainly due to the effect of the strike in Chile offsetting the consolidated capacity growth in rest of the countries.

Traffic grew 1.1%, resulting in a 0.9 percentage points increase of the load factor to 80% and then revenues per ASK decreased 3.5% to USD 0.07, in part due to the depreciation of the Argentine peso and the strike in Chile.

As a result, our overall passenger capacity grew by 4.6% year-over-year this quarter. Revenues per ASK declined 1% year-over-year, with our yields improving 1.7% and load factor decreasing 2.2 percentage points.

If we look at the cargo side, we have increased our capacity by 7.5% during the quarter and increased load factor by 1 percentage points to 55%. This quarter, we continued to see an improvement in our unit revenues with revenue per ATK going up by 8.7% as compared to last year to USD 0.188, driven by a recovery in both imports, mainly to Brazil and Chile from North America and Europe, and also export markets, especially salmons to North America and Asia.

Please turn to Slide #5. During the past years, we have been working very hard addressing our cost factor. We are now an airline that flies more and carries more passenger and cargo with fewer employees and aircraft as shown at the top of the slide. We see that our overall cost increased by 5.6% year-over-year to $2.3 billion. The increase is mainly explained by a $175 million of high fuel expenses, resulting from an almost 36% increase on the average price per gallon, excluding hedge, compared to last year's second quarter. Excluding fuel cost, our total costs would have declined by 2.9%. Cost associated to wages and benefits decreased 3.7% year-over-year, major driven by a reduction of 3.9% in the average headcount of the quarter as you can see in the chart at the top of the slide.

Regarding fleet costs, which include aircraft rentals, depreciation and amortization and maintenance expenses, those were down by 6.2% year-over-year in the quarter, explained by lower aircraft rental expenses as a result of reduction of 6 aircraft under operating leases during the quarter and lower redelivery cost as the company only returned one aircraft in the second quarter while in the same period of last year 7 aircrafts were returned.

Lastly, the other cost line on the slide was relatively stable, decreasing by 0.1% as a high volume of operations in both passenger and cargo operation as well as cost pressure from compensation related to the strikes offset the result of our efficiency initiatives. We can see now that LATAM is flying more with fewer aircraft, achieving a cost per ASK ex fuel reductions. In fact, cost per ASK increased by 0.9% year-over-year, while cost per ASK ex fuel decreased by 7.2% year-over-year.

Please turn to Slide #6. Regarding our financial metrics shown on this slide, total gross debt was down by $389 million for the quarter to $7.5 billion compared to December 2017 reaching a leverage ratio of 4.4x. We continue to benefit from the very good liquidity position with $1.2 billion of cash on hand plus $600 million of a revolving credit facility, which has been increased by $150 million in the second quarter to $600 million and has been extended until the year 2022. The RCF is totally undrawn as of today. With this, LATAM's liquidity position reached 17% of last 12 months revenues.

On the same slide, if we look at the debt maturity profile shown at the bottom of the slide, it shows a remainder of around $500 million to pay down in 2018 and less than $900 million for 2019. While for 2020, we have $1.5 billion, due to the upcoming maturity of the LATAM bonds, $500 million unsecured in 2020.

Please, turning on Slide #7. Looking at the fleet plan, we can observe here that the changes that Ramiro mentioned at the beginning of the presentation. We have further invested our fleet commitments for 2018, and we are now expecting to end the year with 312 aircraft, 6 aircraft less than in the previous quarter's plan with fleet commitments totaling $507 million. As a result of these recent movements, our fleet commitment for 2019 will now amount to $1.4 billion, which will result in an operating fleet size of 320 aircraft, 4 less than in the previous fleet plan. We will evaluate the options we have because current commitment for 2019 are still high for growth plans for the next year. It is most likely that for 2018 all the planes that we will receive will be under operating lease contracts, hence no CapEx related to the fleet in 2018. And for the next year, for 2019, we will evaluate the different options that we have currently at hand. It should be mentioned that of the $1.4 billion in fleet commitments in 2019, almost $0.5 billion have been already financed. This cautious view allowed us to continue improving our cash flow of investments as we can see on the next slide. We compared here last 12 months through June '17 to June '18, and this is mostly driven by higher EBIT margin for the last 12 months of 7.1%.

We remain focused in the deleverage process of the company, taking a disciplined approach to our investments. This does not mean that we will stop our investments. In fact, we are working in a very important project to upgrade the cabins of most of the aircraft in our fleet as you will see on the next slide. On Slide #9, we are showing that in the next month, we will start with the strategic project that touches almost 2/3 of our total fleet, both narrow and wide-body aircraft, in which our passengers will experience an industry-leading onboard experience, allowing us to better serve each passenger with more options, flexibility and personalization. The total investment of this project is around $400 million, which includes new premium business seats, a (inaudible) economy cabin, improved comfort and state-of-the-art in-flight entertainment system for the wide body aircraft. Speaking of the narrow body fleet, the new seats will also be more comfortable and will be segmented into sections with different levels of space with option for more budget-conscious passengers as well as greater number of seats with increased legroom to choose from. We will keep investing in our passengers. We believe that this transformation of our onboard experience would not only help strengthen loyalty with our existing passengers, but also attract new customers.

Please turn to Slide #10. Our network is one the things that make us the most important airline in the region, and we are committed to maintaining our network leadership. During July, we launched 2 new destinations from our São Paulo Guarulhos hub, São Paulo to Boston and São Paulo to Las Vegas. With these 2 additional destinations, now we fly directly into 6 cities in the U.S. from our hubs. In addition, we announced that, from 2019, LATAM will start operation to Munich, Germany, becoming the ninth destination in Europe. These new destinations as well as new routes such as Santiago-Cusco and Santiago-Porto Alegre will continue to strengthen our existing network. It is also important to mention that in May, President Temer approved the Open Skies agreement between Brazil and the U.S., another important step towards the implementation of LATAM's joint business agreement with American Airlines and IAG. Now we are only awaiting authorization from the Chilean Antitrust Agency and the Department of Transportation in the U.S.

Please turn to Slide 11. Regarding fuel and FX hedging portfolio. For the second quarter of 2018, we have hedged approximately 45% of the estimated fuel consumption, recording a $10 million of fuel hedging gain compared to the $10 million loss recorded in last year's quarter. In the third quarter 2018, we have about 44% of the estimated fuel consumption hedged, while for the fourth quarter, that percentage is 51%. Looking into 2019, the first and second quarter have 30% and 22% of the estimated consumption already hedged, respectively.

Regarding the BRL hedge. During the second quarter 2018, we recognized $6 million gain related to foreign currency contracts compared to a neutral result in the second quarter in 2017. We have hedged $100 million for each of the quarters of the second half of 2018.

Lastly, please move to Slide #12. As Ramiro mentioned before, we are revising our guidance for operating margin and capacity growth in 2018. We are now incorporating the current high fuel prices, weaker currencies and the impact of the strikes in our projections. Now we are estimating $85 a barrel for the full year, $73 in previous guidance and a BRL of BRL 3.71 for the full year, BRL 3.31 in the previous guidance. We're expecting total capacity to grow between 4% and 6% this year, down from a range between 5% and 7%. This breaks down in 5% to 7% for the international segment, which incorporated currently high fuel prices. For domestic Brazil, we are not changing our capacity growth range from 2% to 4% with the growth mainly at our Guarulhos hub. For Spanish-speaking countries, we reduced our expected growth for the year to a range between 4% and 6%. We are not changing or starting in the Spanish-speaking countries and are incorporating the effects of the strike in Chile in our projections. We have also maintained the cargo capacity guidance to increase between 1% and 3% in 2018. With all of this, we expect our operating margin to be between 6.5% to 8% this year, down from the range of 7.5% to 9.5% as previously guided. With this, this concludes our presentation. We would be happy to open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Duane Pfennigwerth from Evercore ISI.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

As you look at the current macro backdrop, the current macro scenario right now, are there any segments of your business that are fully offsetting higher fuel? And I wonder, if you could comment which segment of your business was the largest contributor to your moderated guidance outlook?

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

Duane, this is Roberto Alvo. So yes, we have -- as we see our different groupings, we see very different situations today. Most concerning today is Argentinian demand, basically, because of the devaluation. We are seeing better demand trends in Spanish-speaking to the U.S. and Europe, where we are being able to drive RASK up to the tune of fuel prices. And the places that are most challenging today is basically to the Caribbean because of high sourcing of demand from Argentina. And we are also seeing challenges between Brazil and the U.S., particularly because of significant increase in capacity from different players in the last few months. So we see demand relatively stable and solid in both Europe, the U.S. and the Pacific side of Spanish-speaking. We are more concerned today with respect to Argentina and to some extent in Brazil.

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO & Senior VP of Financial Fleet*

Yes, maybe complementing that, Duane, just add that the cargo segment is the one that is offsetting fuel completely.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

That makes sense. I wonder, I know you've been reluctant to do this in the past. Would you be able to size sort of the magnitude of the impact either to RASM or operating income from Argentina, specifically?

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

No. We don't do it. I mean, it's very difficult to forecast, also given the political situation in the country today. I think that what you need to have in mind is approximately 11% of our revenues today are created in Argentina -- sourced from Argentina.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

That's helpful. And then just my last question. With respect to the flattish yields you saw in local currency in Brazil domestic in the second quarter, obviously, some nonrecurring demand impacts there, how would you characterize the pricing and competitive environment right now through July and August in Brazil domestic?

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

May and June were hard months. We saw a significant impact from the strike. And it happened more or less at the same time that we changed our PSS system. And we believe there was a nonminor impact basically in load factor due to the change in the reservation system in the second half of the second quarter. We are seeing a better demand environment in July and in August. Revenues -- industrial revenues, we believe, are increasing in real terms, all in all. And despite of the political uncertainty in Brazil today, Domestic Brazil looks relatively healthy. We had a couple of rough months, particularly in the second half of the second quarter.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Any impacts competitively as you see some of these fleet upgauging, et cetera from some of your competitors?

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

Nothing that we can deem material.

Operator

Our next question is from Savi Syth from Raymond James.

Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

Just on the cost execution, which was very good. I wonder, if you could break out how much is the kind of the 7% decline in nonfuel unit cost, how much of that was driven by FX versus how much of that was kind of core improvement that we can expect to continue regardless of what FX does?

Andrés Del Valle Eitel - *LATAM Airlines Group S.A.*

Yes. The major part was not driven by FX, it's more utilization and productivity. I would say that excluding FX, devaluation of the currencies, the improvement instead of being 7.2% is roughly 4.5%. So I would say 2/3 is an improvement of efficiencies and 1/3 more or less is FX driven.

Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

And then just on the financial target side. I wonder if you could give kind of a revised view on how you're thinking about what level of cash you want to maintain and then kind of any coverage ratios. Just how you're thinking about the balance sheet as you kind of continue to do the work in adjusting cash flows here?

Andrés Del Valle Eitel - *LATAM Airlines Group S.A.*

Sure. Andres del Valle, here. If we look at, say, liquidity, of course, second quarter is sort of the lowest quarter of the year because of the seasonality. But going forward, we expect to maintain up to 19%, 20% of last 12 months revenues, including the RCF. As we detailed, the RCF has been upsized to $600 million. So that's sort of a level of the cash that we feel is adequate for the company looking at the upcoming maturities. With respect of deleveraging, we are now at the 4.4x leverage and looking at the revised margin for the year, which has been revised downward to 6.5% to 8%, at the beginning of the year, we thought that the end of the year would be in the very low 4s in terms of adjusted net debt to leverage. Now it could be roughly at this same level that you're seeing today. But going forward, of course, the company continues to deleverage as margins continue to expand.

Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

Is there kind of a level that you're comfortable with or you -- that you definitely want to get below? Or how should we think about that coverage ratio?

Andrés Del Valle Eitel - *LATAM Airlines Group S.A.*

The coverage ratio, we definitely would like to be below 4x, for sure. But as I said that, this is not happening this year. But going forward, we definitely would like to see that level below 4x.

Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

Great. And then just one last question to follow up on Duane's line of question and just on the Brazil, U.S. side. I'm guessing, that's where the kind of the greatest weakness is on international. And I wonder, if you are -- what you are seeing? It seems like you're seeing capacity being adjusted in the industry. As you look forward, are you feeling better about the outlook there? Or do you kind of expect continue to see pressure on that front?

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

So yes. We have seen a few capacity decreases from other players in the last few weeks. If you measure demand in real terms, we believe that the industry is growing. However, when you measure demand in dollar terms, because of the devaluation, the industry is decreasing. We think that there is still some pressure in revenue per ASK, particularly in Brazil, U.S., and the capacity, we believe, is not still at the level we can feel that fuel can be passed on -- higher fuel prices can be passed on yet.

Operator

Our next question is from Josh Milberg from Morgan Stanley.

Joshua Milberg - *Morgan Stanley, Research Division - Equity Analyst*

I was hoping you could provide some -- a little more perspective on the evolution of your domestic Spanish-speaking -- the domestic Spanish-speaking portion of your business. It, obviously, didn't hold up as well as international. And just wanted to get a little more granularity on what you're seeing in the different countries. And also if you could just comment on how you're seeing the evolution of competition from low-cost players? I know you just mentioned that Argentina has been a source of some weakness.

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

Yes. So we're very happy with the model that we've launched almost 2 years ago with branded fares in Spanish-speaking countries. We believe that's the right strategy to compete against local scares and competition in general and in the region. Our results, we believe, are, of course, impacted because of the strike in Chile, which was very costly in the second quarter. Otherwise, the results are in line with our expectations. We keep load factors at a healthy level. And when you see public information on load factors of low-cost competitors in the region, they are several points below us, and we believe that's a key metric of low-cost carrier performance everywhere and particularly in the region. So we believe that our strategy is the right one, and we actively and very intensely complete, particularly, in Chile today and in Colombia where also we have an important low-cost carrier. With respect to Argentina, I think it's important to point out that the devaluation has had more significant impact in international routes rather than domestic routes. There was a change in regulation in Argentina a couple of months ago where the bottom of the band was liberated for tickets that are purchased with more than 30 days advance notice. We are implementing our branded fares model in Argentina at the end of this quarter, beginning of next quarter, and we'll be in a much better position to use our strategy today with the deregulation of the Argentine market. So we -- weakness today is more related to international business because, of course, the regulation makes cost in pesos to travel abroad higher. The increase in demand we've seen with the exclusion of the band is healthy, and we've been able to capture, we believe, a significant portion of the new demand with lower pricing because of no existence of the band in Argentina.

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO & Senior VP of Financial Fleet*

Josh, if I may -- this is Ramiro. I would like to complement that, on Page 4, you can see that on Spanish-speaking countries, our load factors, despite the strike, have increased by 1 point -- percentage point. And the reduction in RASK that you're seeing there is all attributed to the devaluation of the currencies. So when you look this in local currencies, you're seeing an improvement in RASK.

Joshua Milberg - *Morgan Stanley, Research Division - Equity Analyst*

Okay. And then my second question was just on your fleet commitments. I mean, you did have this very important reduction for 2018, but your figure for 2019 came up significantly, so it offset part of the reduction this year. And I was just hoping you could talk a little more about your strategy going into 2019. I mean, do you see a sort of scenario in which the 2019 figure come -- gets scaled back as well?

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO & Senior VP of Financial Fleet*

Yes. I think that's very probable. We are increasing the utilization of our aircraft that you have seen in quarter 2, and this is allowing us to grow with fewer aircraft. And we believe that we can further optimize utilization going forward in 2019. So maybe you will see a reduction of these fleet commitments for 2019 going onwards.

Joshua Milberg - *Morgan Stanley, Research Division - Equity Analyst*

Okay. And then could you -- if you could just -- a sort of semi-related question is, if you could just give us a sense of what your nonfleet CapEx would -- might be for year 2018, 2019 as well? Just give us a sense of what the magnitude of that could be for the 2 years?

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO & Senior VP of Financial Fleet*

Yes. Nonfleet CapEx for this year was -- is expected to be roughly $650 million. And this includes the connectivity plan, we're connecting airplanes with Wi-Fi in Brazil, and the initial investment in the cabins that was presented today, the $400 million. So for 2019, you should be expecting roughly, I would say, $700 million. And then from '20 onwards, it will be reducing since most of the cabin investments would have been made.

Operator

Our next question is from Mike Linenberg from Deutsche Bank.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Just a couple here. I thought it was interesting that you gave us the changes in point of sale from Latin America to -- or your international routes to Europe and U.S. You indicated that it's 18% versus 15% a year ago. Is that all currency driven? Are you actually seeing better demand strength coming out of the U.S. and Europe down to South America and/or is there any sort of marketing initiatives that you've put in place to try to improve the point of sale balance?

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

Mike, this is Roberto. I think this -- one of the advantages we have is the diversification of point of sale that the company has to its network. We have been, in particular, increasing our sales, and we've done this on purpose in markets that we've seen more healthy as a way of counterbalancing the decrease in the demand in particularly Argentina and to some extent in Brazil. So this is very much on purpose what we're doing. And we are trying to gain market share on those points of sales by changing a little bit our strategy.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Okay. great. And just a second question. With respect to your joint business agreement that is pending with IAG, so with British Airways and Iberia, you -- just so I'm clear, you do not need an Open Skies agreement between Brazil and the rest of the South America and Europe for that to proceed. Is that correct?

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

That's correct. The European Union doesn't require Open Skies. We gained approval already from every jurisdiction in South America, and we're waiting only for the approval in Chile. And the European Union has not investigated our presentation. So we're basically at this point in time only waiting for the antitrust court ruling in Chile.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Okay. Great. And then just my last question on Argentina. Can you just walk through on the change to the fare structure? I believe, there are some restrictions, like in order to take advantage of the lower bands or to go to lower fares, I think that the tickets require some pretty significant advance purchase restrictions. Can you just run through what those are? And sort of as a corollary to this question, we have this new fare structure coming into place as we have a lot of new entrants moving into Argentina. Just from where I sit, I would suspect that over time, there's probably going to be some rationalization of the market and it may happen sooner than we actually think. Is that sort of the right assessment of how the situation could play out?

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

So the -- there's basically 2 changes in the relation for fares in domestic. One is that the ceiling, the floor of the band has been removed, but only for tickets that are purchased with more than 30 days than the time of flight. And the second (inaudible) want is that those tickets need to be round trip. You cannot sell one-way tickets with more than 30 days advance. So those are the -- that doesn't change. In the past, you had a floor for all the advance, for all date and time. So it's interesting because on day 30, you have one fare and on day 29, then you have, again, the floor of the band instituted. So that's the change and it started on September 1. We are implementing, as I said, branded fares in Argentina at the end of the quarter, and we'll also be implementing our branded fares model in regional routes, so this is international within South America, in the beginning of the fourth quarter. It's very fluid today in Argentina. And of course, we do not give opinion on our competition. But the situation in domestic Argentina with the devaluation and the fuel price, I think, is challenging for everybody who plays in the market, including the flag carrier.

Operator

(Operator Instructions) Our next question is from Stephen Trent from Citi.

Stephen Trent - *Citigroup Inc, Research Division - Director*

Just kind of 2 follow-ups from me, if I may. The first just to, I guess, follow up on Savi's question. When we think about medium, the longer term, I'm kind of looking at your cash and equivalents versus your debt maturities. At this point, is it fair to say that you don't anticipate having to do any kind of meaningful capital raisings between now and 2020?

Andrés Del Valle Eitel - *LATAM Airlines Group S.A.*

Stephen, Andres here. That's a fair statement. I think 2019 is sort of a quiet year in terms of debt maturities below $900 million. So the next sort of refinancing exercise would be in respect of the LATAM 2020, and that's coming in June 2020. So of course, we're always evaluating the different options. But nothing, I think, important should be, I think, done at this point in time.

Stephen Trent - *Citigroup Inc, Research Division - Director*

Okay. Great. I appreciate that, Andres. And actually just one other quick follow up. I think in your exchange with Duane earlier, you were mentioning that Argentina drives roughly 11% of your revenue, and I just wanted to make sure I understood that correctly?

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

Yes. that's correct. Point of sale Argentina is approximately 11% of our earnings.

Stephen Trent - *Citigroup Inc, Research Division - Director*

Got it. So when I looked at your capacity graph, only 16% coming from Spanish-speaking countries domestic. That obviously only counts domestic and not international from those markets. And sorry for the dumb question, just wanted to make sure.

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

No. So 11% is both domestic and international. Approximately 75% of that 11% is international, the rest is domestic. We currently have approximately 33 daily flights -- 33 international daily flights to Argentina.

Operator

Thank you for joining us today. Please feel free to contact our Investor Relations Department if you have any additional questions. We look forward to speaking with you, again, soon.